

**THE FEDERAL HOSPITAL INSURANCE TRUST FUND**

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**COMMUNICATION**

**FROM**

**THE BOARD OF TRUSTEES**

**TRANSMITTING**

**THE 1989 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE  
FEDERAL HOSPITAL INSURANCE TRUST FUND, PURSUANT TO 42  
U.S.C. 401(c)(2), 1395i(b)(2), 1395t(b)(2)**



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ordered to be printed**

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**WASHINGTON : 1990**



LETTER OF TRANSMITTAL

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Board of Trustees of the  
Federal Hospital Insurance Trust Fund  
Washington, D.C., December 5, 1989

HONORABLE THOMAS S. FOLEY  
Speaker of the House of Representatives  
Washington, D.C.

HONORABLE DAN QUAYLE  
President of the Senate  
Washington, D.C.

GENTLEMEN:

We have the honor of transmitting to you the 1989 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 24th such report), pursuant to the provisions of section 1817(b) of the Social Security Act.

The enactment of the Medicare Catastrophic Coverage Act of 1988 (P.L. 100-360) has resulted in a substantial delay in the completion of the 1989 report. The additional time was needed in order to solve the technical problems associated with long-range projections of revenue derived from the new supplemental premiums created by the catastrophic coverage legislation and the allocation of the supplemental premium revenue among the various trust funds according to the complex formulas in the legislation.

The Medicare Catastrophic Coverage Repeal Act of 1989, recently passed by the Congress but not yet signed into law, has overridden the usefulness of long-range projections of the supplemental premiums, since supplemental premiums would no

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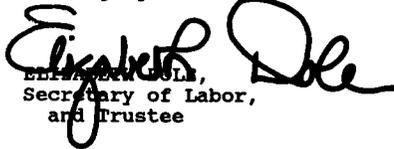
longer be a consideration in the financing of the Federal Hospital Insurance Trust Fund. However, because the Medicare Catastrophic Coverage Repeal Act of 1989 has not yet become law, and because the long-range impact of the act has not yet been fully evaluated, we are transmitting the attached abbreviated report, which presents the operations of the Federal Hospital Insurance Trust Fund for the previous fiscal year, the current fiscal year, and the next two fiscal years, as required by section 1817(b) of the Social Security Act. We expect that a full long-range assessment of the actuarial status of the fund, including the impact of the Medicare Catastrophic Coverage Repeal Act of 1989, can be provided in the 1990 report.

In addition, because section 1841A of the Social Security Act has been repealed by the Medicare Catastrophic Coverage Repeal Act of 1989, the report required by that section on the operations of the Federal Catastrophic Drug Insurance Trust Fund is not being transmitted.

Respectfully,



NICHOLAS F. BRADY,  
Secretary of the Treasury, and  
Managing Trustee of the Trust Fund

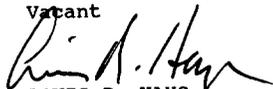


ELIZABETH DOLE,  
Secretary of Labor,  
and Trustee

  
LOUIS W. SULLIVAN, M.D.,  
Secretary of Health and  
Human Services, and Trustee

PUBLIC TRUSTEE,  
Vacant

PUBLIC TRUSTEE,  
Vacant

  
LOUIS B. HAYS,  
Acting Administrator of the Health  
Care Financing Administration, and  
Secretary, Board of Trustees



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**1989 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE  
FEDERAL HOSPITAL INSURANCE TRUST FUND**

**THE BOARD OF TRUSTEES**

The Federal Hospital Insurance Trust Fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1817(b) of the Social Security Act, as amended. The Board currently has three members. They serve in an ex officio capacity. These members are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services. The Board also includes positions for two members of the public as Trustees. The two Public Trustees served under recess appointments which expired when the Congress adjourned on November 22, 1989.

By law, the Secretary of the Treasury is designated as the Managing Trustee and the Administrator of the Health Care Financing Administration is designated as Secretary of the Board. The Board of Trustees reports to the Congress each year on the operation and status of the trust fund, in compliance with section 1817(b)(2) of the Social Security Act. This is the 1989 annual report, the 24th such report.

**SOCIAL SECURITY AMENDMENTS SINCE THE 1988 REPORT**

Since the 1988 Annual Report was transmitted to Congress, several laws affecting the hospital insurance (HI) program (also known as Medicare Part A) have been enacted. The more important legislative changes, from an actuarial standpoint, are described below.

The Medicare Catastrophic Coverage Act of 1988 (Public Law 100-360) was enacted on July 1, 1988, and contained the following changes:

- (1) The scope of benefits is expanded beginning January 1, 1989. The spell of illness concept has been eliminated for hospital and extended care services. As a result, HI will pay for an unlimited number of hospital days and for 150 days of skilled nursing facility (SNF) care per calendar year for covered services. In addition, there is no longer a requirement for prior hospitalization to obtain SNF coverage, and hospice care can be extended beyond the 210-day cap with a physician certification that the patient is terminally ill. The requirement that days spent in a psychiatric hospital during the 150-day period preceding Medicare entitlement be counted in a spell of illness is deleted.
- (2) Beginning January 1, 1989, beneficiaries are responsible for only one inpatient hospital deductible each year.

Beneficiaries who pay a deductible for hospitalizations beginning during the month of December will not be required to pay an additional deductible for hospitalizations beginning in January of the following year. Beneficiaries enrolled in a health maintenance organization (HMO) or competitive medical plan (CMP) whose Medicare contracts are terminated during a year will not be charged an inpatient deductible for the remainder of that year if they had a hospital admission during that year that was paid for by the HMO or CMP.

- (3) The coinsurance requirements are eliminated for inpatient hospital stays; however, for extended care services, beneficiaries are liable for coinsurance equal to 20 percent of the national average per diem reasonable cost (as estimated and promulgated in September of the prior calendar year) for the first eight days of SNF care.
- (4) Home health services have been extended, effective January 1, 1990, by changing the definition of intermittent services from no more than four days per week to less than seven days per week and by specifying that daily care may now be provided up to 38 consecutive days.
- (5) The Part A premium for individuals who do not automatically qualify for Medicare is revised. Effective January 1989, it is 1/12 of the estimated actuarial value of the average per capita amount payable for the year from the HI trust fund for incurred benefits and related

administrative costs for individuals age 65 and older who are entitled to Part A benefits (as estimated and promulgated in September of the prior calendar year). Each year the Secretary must issue a public statement detailing the actuarial assumptions used in calculating the actuarial rate for the premium.

- (6) Several transition and conforming provisions are included in the Act. Among these is the provision that the Secretary must take into consideration reductions in beneficiary payments to hospitals, as a result of the elimination of the day limitation, when adjusting payment rates, outlier cutoff points and weighting factors for prospective payment system (PPS) hospitals, and the target amount for non-PPS hospitals. These payment adjustments are effective for discharges (or cost reporting periods for non-PPS hospitals) occurring on or after October 1, 1988.
- (7) Most Medicare beneficiaries who are eligible for Medicare Part A for more than 6 months in a calendar year and whose tax liability is \$150 or more are subject to a supplemental catastrophic coverage premium. Individuals who are entitled to Part A benefits solely by payment of a premium, who reside in a foreign country for at least 330 days during the taxable year, or who reside in Puerto Rico, the Virgin Islands, or possessions of the United States with no U. S. income tax liability are not subject

to this premium. The statute specifies the catastrophic coverage premium rates (per \$150 of adjusted Federal income tax liability) and maximum annual amounts per individual for 1989 to 1993, and methodologies for calculating the premium rates after 1993.

- (8) A new trust fund, to be known as the Federal Hospital Insurance Catastrophic Coverage Reserve Fund (the HI reserve fund), is established. Beginning in 1989, supplemental catastrophic coverage premiums are appropriated to the HI reserve fund, but not exceeding the amount of outlays from the HI trust fund that are attributable (on an estimated basis) to the catastrophic coverage provisions. Transfers of the supplemental catastrophic coverage premiums to the HI reserve fund are to be made not less frequently than monthly, with adjustments made in subsequent transfers to take account of more current estimates of the HI costs attributable to the catastrophic coverage provisions. Supplemental catastrophic coverage premium rate receipts not appropriated to the HI reserve fund are appropriated to the Federal Supplementary Medical Insurance (SMI) Trust Fund. No expenditures from the HI reserve fund are permitted, but it is anticipated that Congress may at some future time transfer funds from the HI reserve fund to the HI trust fund.

- (9) The Medicare Catastrophic Coverage Account is established under this legislation. No funds shall be transferred into or out of this account, but amounts credited to it shall be considered receipts of the account and amounts debited to it shall be considered outlays from the account. It will be credited with the receipts of the SMI trust fund attributable to catastrophic coverage, receipts of the HI reserve fund, and interest on any positive average balance in the account. It will be debited with outlays attributable to the catastrophic coverage from the HI and SMI trust funds, as well as with interest on any negative average balance in the account.

The Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647) was enacted on November 10, 1988, and extended the Medicare payment adjustment for hospitals which serve a disproportionate share of low-income patients. The disproportionate share adjustment, which had been in place for discharges occurring before October 1, 1990, is now in place for discharges occurring before October 1, 1995.

The Medicare Catastrophic Coverage Repeal Act of 1989 and the Omnibus Budget Reconciliation Act of 1989 were passed by Congress, but as of December 5, 1989, had not been signed into law by the President. The financial impact of this legislation is not

included in this report. Therefore, a detailed description of this legislation will be presented in the 1990 report.

Detailed information regarding these changes and other less significant changes can be found in documents prepared by and for the Congress.

**NATURE OF THE TRUST FUND**

The Federal Hospital Insurance Trust Fund was established on July 30, 1965, as a separate account in the United States Treasury. All the financial operations of the hospital insurance program are handled through this fund.

The primary source of income to the trust fund is amounts appropriated to it under permanent authority on the basis of contributions paid by workers, their employers, and individuals with self-employment income, in work covered by the hospital insurance program. Beginning January 1, 1987, these appropriated amounts include contributions paid by, or on behalf of, workers employed by State and local governments and their employers, with respect to work covered by the program through State agreements. (Prior to 1987, such contributions were deposited directly into the trust fund.) The coverage of the hospital insurance program includes workers covered under the old-age, survivors, and disability insurance (OASDI) program, those covered under the railroad retirement program, and Federal employees.

All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers, including cash tips. (Prior to 1978, employees paid contributions with respect to cash tips but employers did not. From 1978 to 1987, employers paid contributions

on that part of the tip income deemed to be wages under the Federal minimum wage law.) All covered self-employed persons are required to pay contributions with respect to their self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount, with the contributions being determined first on the wages and then on any self-employment income up to the maximum annual amount.

The hospital insurance contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1990 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year 1966-89 are also shown. For 1975-78, the contribution and benefit bases were determined under the automatic increase provisions in section 230 of the Social Security Act. In 1979, 1980, and 1981, the bases increased to the specified amounts as provided under the 1977 amendments. After 1981, the automatic increase provisions are again applicable.

All contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections. The contributions received are

automatically appropriated to the trust fund, on an estimated basis. The exact amount of contributions received is not known initially since HI contributions, OASDI contributions, and individual income taxes are not separately identified in collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

Prior to May 1983 and after June 1984, the estimated internal revenue collections were transferred to the trust funds immediately upon receipt. For May 1983 through June 1984, estimated total collections for each month were credited to the trust funds on the first day of the month. As the actual collections were received during the month, they were deposited in the general fund of the Treasury and remained there. The trust funds paid interest to the general fund to reimburse it for the interest lost because of this provision.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum can receive a refund of the contributions he paid on such excess wages. The amount of contributions subject to refund for any period is a charge against the trust fund.

As discussed in the section entitled "Social Security Amendments Since the 1988 Report," the Medicare Catastrophic Coverage Act of 1988 (Public Law 100-360) intended that the receipts of the Federal Hospital Insurance Catastrophic Coverage Reserve Fund would be available as a source of revenue for the Federal Hospital Insurance Trust Fund. However, such transfers of funds would require a change in the law, and so have not been included in this report.

Another substantial source of trust fund income is interest received on investments held by the fund. The investment procedures of the fund are described later in this section.

The income and expenditures of the trust fund are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the hospital insurance program.

Sections 217(g) and 229(b) of the Social Security Act, prior to modification by the Social Security Amendments of 1983, authorized annual reimbursement from the general fund of the Treasury to the hospital insurance trust fund for costs arising from the granting of deemed wage credits for military service prior to 1957, according to quinquennial determinations made by the Secretary of Health and Human Services. These sections, as

modified by the Social Security Amendments of 1983, provided for a lump sum transfer in 1983 for costs arising from such wage credits. In addition, the lump sum transfer included combined employer-employee HI taxes on the noncontributory wage credits for military service after 1965 and before 1984. After 1983, HI taxes on military wage credits are credited to the fund on July 1 of each year. The Social Security Amendments of 1983 also provided for (1) quinquennial adjustments to the lump sum amount transferred in 1983 for costs arising from pre-1957 deemed wage credits and (2) adjustments as deemed necessary to any previously transferred amounts representing HI taxes on noncontributory wage credits.

Section 231 of the Social Security Act authorizes reimbursement from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of deemed wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal Government for the internment of persons of Japanese ancestry.

Under section 103 of the Social Security Amendments of 1965, hospital insurance benefits are provided to certain uninsured persons aged 65 and over. Such payments are made initially from the hospital insurance trust fund, with reimbursement from the general fund of the Treasury for the costs, including administrative expenses, of the payments. The reimbursements so made are on a provisional basis and are subject to adjustment, with

appropriate interest allowances, as the actual experience develops and is analyzed.

Section 1818 of the Social Security Act provides that certain persons not eligible for hospital insurance protection either on an insured basis or on the uninsured basis described in the previous paragraph may obtain protection by enrolling in the program and paying a monthly premium.

Section 201(i) of the Social Security Act authorizes the Managing Trustee to accept and deposit in the trust fund unconditional money gifts or bequests made for the benefit of the fund or any activity financed through the fund.

Expenditures for benefit payments and administrative expenses under the hospital insurance program are paid from the trust fund. All expenses incurred by the Department of Health and Human Services and by the Treasury Department in carrying out the provisions of title XVIII of the Social Security Act pertaining to the hospital insurance program and of the Internal Revenue Code relating to the collection of contributions are charged to the trust fund. The Secretary of Health and Human Services certifies benefit payments to the Managing Trustee, who makes the payments from the trust fund in accordance therewith.

Prior to fiscal year 1984, hospitals, at their option, were permitted to combine their billing for both hospital and physician components of radiology and pathology services rendered to hospital inpatients by hospital-based physicians. Where hospitals elected this billing procedure, payments were made initially from the hospital insurance trust fund. The reimbursements so made were on a provisional basis and are subject to adjustment, with appropriate interest allowance.

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health and Human Services to develop and conduct a broad range of experiments and demonstration projects designed to determine various methods of increasing efficiency and economy in providing health care services, while maintaining the quality of such services, under the hospital insurance and supplementary medical insurance programs. A sizable portion of the costs of such experiments and demonstration projects is paid from the hospital insurance and supplementary medical insurance trust funds.

Congress has authorized expenditures from the trust funds for construction, rental and lease, or purchase contracts of office buildings and related facilities for use in connection with the administration of the hospital insurance program. Both the capital costs of construction financed directly through the trust funds and the rental and lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1972-75,

construction of several large facilities was authorized under purchase contract authority, wherein initial capital costs were borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statement of the assets of the trust fund presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures and, therefore, is not viewed as being a consideration in assessing the actuarial status of the funds.

That portion of the trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration, is invested, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall bear interest at a rate based on the average market yield (computed on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such month. These special issue securities are always redeemable at par value, and so are not subject to the uncertainty of price fluctuations as interest rates change.

From December 29, 1981, until January 1, 1988, the Social Security Act authorized borrowing among the OASI, DI, and HI trust funds when necessary "to best meet the need for financing the benefit payments" from the three funds. Interfund loans under the borrowing authority were made to the OASI trust fund from the DI and HI trust funds in 1982, and were fully repaid by May 1986. In this report, the assets of the HI trust fund at the end of 1982 through 1985, inclusive, do not include the amounts owed to the trust fund. This procedure is followed because the borrowed amounts were available to the borrowing fund for the payment of benefits or other obligations, while such amounts were not readily available to the lending fund.

TABLE 1.--CONTRIBUTION RATES AND MAXIMUM TAXABLE  
AMOUNT OF ANNUAL EARNINGS

Calendar years	Maximum taxable amount of annual earnings	Contribution rate (Percent of taxable earnings)	
		Employees and employers, each	Self-employed
Past experience:			
1966	\$6,600	0.35	0.35
1967	6,600	0.50	0.50
1968-71	7,800	0.60	0.60
1972	9,000	0.60	0.60
1973	10,800	1.00	1.00
1974	13,200	0.90	0.90
1975	14,100	0.90	0.90
1976	15,300	0.90	0.90
1977	16,500	0.90	0.90
1978	17,700	1.00	1.00
1979	22,900	1.05	1.05
1980	25,900	1.05	1.05
1981	29,700	1.30	1.30
1982	32,400	1.30	1.30
1983	35,700	1.30	1.30
1984	37,800	1.30	2.60
1985	39,600	1.35	2.70
1986	42,000	1.45	2.90
1987	43,800	1.45	2.90
1988	45,000	1.45	2.90
1989	48,000	1.45	2.90
Changes scheduled in present law:			
1990 & later	Subject to automatic increase	1.45	2.90

**SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1988**

A statement of the income and disbursements of the Federal Hospital Insurance Trust Fund in fiscal year 1988, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the trust fund amounted to \$50,596 million on September 30, 1987. During fiscal year 1988, total receipts amounted to \$68,010 million, and total disbursements were \$52,730 million. The assets of the trust fund thus increased \$15,281 million during the year to a total of \$65,877 million on September 30, 1988.

Included in total receipts during fiscal year 1988 was \$62,091 million representing contributions appropriated to the trust fund. As an offset, \$147 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base, and \$42 million was transferred from the trust fund to State and local governments for refunds of overpayments from previous State agreements for coverage of State and local government employees.

Net contributions amounted to \$61,901 million, representing an increase of 7.1 percent over the amount of \$57,820 million for the preceding 12-month period. This growth in contribution income resulted primarily from (1) the higher level of earnings in covered employment and (2) the two increases in the maximum annual amount of earnings taxable from \$42,000 to \$43,800 and from \$43,800 to \$45,000 that became effective January 1, 1987, and January 1, 1988, respectively.

The section entitled "Nature of the Trust Fund" referred to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for costs of paying benefits under this program on behalf of certain uninsured persons. The reimbursement in fiscal year 1988 amounted to \$475 million, consisting of \$465 million for benefit payments, \$8 million for administrative expenses, and \$2 million for interest on adjustments to costs in prior fiscal years.

The section entitled "Nature of the Trust Fund" referred to provisions of the Social Security Act under which certain persons aged 65 and over but not otherwise eligible for hospital insurance protection may obtain such protection by enrolling in the program and paying a monthly premium. Premiums collected from such voluntary participants in fiscal year 1988 amounted to about \$42 million.

In accordance with the provisions of the Railroad Retirement Act which coordinate the railroad retirement and the hospital insurance programs and which govern the financial interchange arising from the allocation of costs between the two systems, the Railroad Retirement Board and the Secretary of Health and Human Services determined that a transfer of about \$332 million from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of September 30, 1987, in which it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest to the date of transfer amounting to about \$31 million, was transferred to the trust fund in June 1988.

In accordance with provisions for the appropriation to the trust fund of HI taxes on noncontributory military wage credits as discussed in the section entitled "Nature of the Trust Fund," the trust fund was credited on July 1, 1988 with \$80 million for calendar year 1988 taxes on wage credits.

The remaining \$5,148 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the \$52,730 million in total disbursements, \$52,022 million represented benefits paid directly from the trust fund for health services covered under title XVIII of the Social Security Act. Benefit payments increased 4.1 percent in fiscal year 1988 over the

corresponding amount of \$49,967 million paid during the preceding 12 months.

The remaining \$707 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds -- old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance -- on the basis of provisional estimates. Similarly, the expenses of administering other programs of the Health Care Financing Administration are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by interfund transfers, including transfers between the hospital insurance and supplementary medical insurance trust funds and the program management general fund account, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1988 with the estimates presented in the 1987 and 1988 annual reports. The section entitled "Nature of the Trust Fund" referred to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in

table 3, it should be noted that the "actual" amount of contributions in fiscal year 1988 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions for fiscal year 1988 does not reflect adjustments to contributions for fiscal year 1988 that were to be made after September 30, 1988.

The assets of the hospital insurance trust fund at the end of fiscal year 1987 totaled \$50,596 million, consisting of \$50,770 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and, as an offset, an extension of credit of \$173 million against securities to be redeemed. The assets of the hospital insurance trust fund at the end of fiscal year 1988 totaled \$65,877 million, consisting of \$66,080 million in the form of obligations and, as an offset, an extension of credit of \$203 million against securities to be redeemed. Table 4 shows the total assets of the fund and their distribution at the end of fiscal years 1987 and 1988.

New securities at a total par value of \$85,756 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was \$70,457 million. Thus, the net increase in the par value of the investments held by the fund during fiscal year 1988 amounted to \$15,299 million.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during the 12 months ending on June 30, 1988, was 9.9 percent. (This period is used because interest on special issues is paid semiannually on June 30 and December 31.) The interest rate on public-debt obligations issued for purchase by the trust fund in June 1988 was 9.25 percent, payable semiannually.

TABLE 2.--STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND  
DURING FISCAL YEAR 1988  
(In thousands of dollars)

Total assets of the trust fund, beginning of period	\$50,596,354
Receipts:	
Appropriation of employment taxes	\$62,090,579
Refunds of employment taxes	-147,350
Deposits arising from State agreements	-42,181
Interest on investments	5,124,353
Amortization of premium and discount (Net)	10,771
Premiums collected from voluntary participants	42,202
Transfer from railroad retirement account	332,400
Transitional uninsured coverage	475,000
Military service credits of 1988	80,000
Interest on reimbursements, SSA 1/	11,832
Interest on reimbursements, HCFA 1/	1,047
Interest on reimbursements, Railroad	31,408
Other (Gifts)	2
Total receipts	<u>\$68,010,062</u>
Disbursements:	
Benefit payments	\$52,022,064
Administrative expenses:	
Treasury administrative expenses	54,614
Salaries and expenses, SSA	239,135
Salaries and expenses, HCFA 2/	378,462
Salaries and expenses, Office of Secretary	14,711
Construction	15,939
Professional Standards Review Organization	-558
Reimbursement of SSA expenses	0
Reimbursement of HCFA expenses	0
Payment Assessment Committee	3,053
Public Health Service	2,099
Other	-8
Total disbursements	<u>52,729,511</u>
Total assets of the trust fund, end of period	<u>\$65,876,905</u>

1/ A positive figure represents a transfer to the hospital insurance trust fund from the other trust funds. A negative figure represents a transfer from the hospital insurance trust fund to the other trust funds.

2/ Includes administrative expenses of the intermediaries.

NOTE: Totals do not necessarily equal the sums of rounded components.

**TABLE 3.--COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE  
HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1988**  
(Dollar amounts in millions)

		Comparison of actual experience with estimates for fiscal year 1988 published in--			
		1988 report <u>1/</u>		1987 report <u>1/</u>	
Item	Actual amount	Estimated amount	Actual as percentage of estimate	Estimated amount	Actual as percentage of estimate
Net contributions	\$61,901	\$61,508	101	\$60,544	102
Benefit payments	\$52,022	\$51,832	100	\$53,031	98

1/ Alternative II-B.

TABLE 4.--ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE,  
AT THE END OF FISCAL YEARS 1987 AND 1988 1/

	September 30, 1987	September 30, 1988
Investments in public-debt obligations sold only to the trust funds (special issues):		
Certificates of indebtedness:		
9 -percent, 1988.....	\$4,367,948,000.00	-----
9 1/4-percent, 1989.....	-----	\$5,581,465,000.00
Bonds:		
8 1/4-percent, 1993.....	622,286,000.00	622,286,000.00
8 3/8-percent, 1989.....	1,231,586,000.00	-----
8 3/8-percent, 1990-2001.....	15,297,664,000.00	15,297,664,000.00
8 5/8-percent, 1989.....	686,250,000.00	-----
8 5/8-percent, 1990-2002.....	11,430,404,000.00	11,430,404,000.00
8 3/4-percent, 1993-1994.....	972,757,000.00	972,757,000.00
9 1/4-percent, 1990-2003.....	-----	17,678,981,000.00
9 3/4-percent, 1993-1995.....	1,240,090,000.00	1,240,090,000.00
10 3/8-percent, 1988.....	420,032,000.00	-----
10 3/8-percent, 1989-2000.....	3,839,700,000.00	3,839,700,000.00
10 3/4-percent, 1988.....	588,410,000.00	-----
10 3/4-percent, 1989-1998.....	2,942,050,000.00	2,942,050,000.00
13 -percent, 1993-1996.....	1,770,094,000.00	1,770,094,000.00
13 1/4-percent, 1993-1997.....	2,541,541,000.00	2,541,541,000.00
13 3/4-percent, 1988.....	262,135,000.00	-----
13 3/4-percent, 1989-1999.....	2,161,216,000.00	2,161,216,000.00
Total public-debt obligations sold only to the trust funds (special issues).....	<u>\$50,374,163,000.00</u>	<u>\$66,078,248,000.00</u>
Investments in federally-sponsored agency obligations:		
Participation certificates:		
Federal Assets Liquidation Trust-		
Government National Mortgage Association:		
6.40-percent, 1987.....	75,000,000.00	-----
6.05-percent, 1988.....	65,000,000.00	-----
6.45-percent, 1988.....	35,000,000.00	-----
6.20-percent, 1988.....	230,000,000.00	-----
Unamortized Premium & Discount (Net).....	<u>-9,455,552.40</u>	<u>1,315,002.00</u>
Total investments.....	<u>\$50,769,707,447.60</u>	<u>\$66,079,563,002.00</u>
Undisbursed balance.....	<u>-173,353,560.84</u>	<u>-202,658,416.91</u>
Total assets.....	<u>\$50,596,353,886.76</u>	<u>\$65,876,904,585.09</u>

1/ Certificates of indebtedness and bonds are carried at par value, which is the same as book value. Book value for participation certificates is par value plus net unamortized premium and discount.

**EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING  
THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1991**

The expected operations of the trust fund during fiscal years 1989-91 are shown in table 5, together with the past experience of the program. The projection shown in table 5 -- and the entirety of this section -- is based on two intermediate sets of projection assumptions labeled "Alternative II-A" and "Alternative II-B," which are presented in detail in appendix A.

Income received through the financial interchange between the railroad retirement account and the trust fund under the provisions of the Railroad Retirement Act is estimated on the same basis as income from hospital insurance contributions. Estimates of the corresponding outgo are included in the disbursement items.

Estimated income to the trust fund which is appropriated from general revenues to reimburse the program for the cost of coverage of noninsured persons is the same as the estimates of disbursements for such persons, net of corrections for differences between costs and amounts transferred for previous years. Premium income and disbursements for other noninsured persons over age 65 who may enroll in the hospital insurance program on a voluntary basis are based on an estimated enrollment of 18,000 in fiscal year 1989.

The transfers from general revenues for military wage credits are based on provisions of the Social Security Amendments of 1983 (Public Law 98-21), as described in the "Nature of the Trust Fund" section.

The investment of new assets received during fiscal years 1989-91 is assumed to be in the form of special public-debt obligations bearing interest rates ranging from 8.25 percent to 9.375 percent, payable semiannually. The average effective annual rate of interest on the assets held by the hospital insurance trust fund on September 30, 1988, was 9.7 percent.

The income estimates in table 5 and 6 do not include income from the supplemental catastrophic coverage premiums which are appropriated to the Federal Hospital Insurance Catastrophic Coverage Reserve Fund (the HI reserve fund). These premiums were established by Public Law 100-360 to cover the cost of the catastrophic coverage benefits created in that legislation. Although Public Law 100-360 intended that the receipts of the HI reserve fund would be available as a source of revenue for the HI trust fund, such transfers would require a change in the law and have not been included in tables 5 and 6.

Disbursements for benefits are projected to increase in fiscal years 1989-91, primarily as a result of the increase in hospital payment rates and hospital admissions under the program. The

expenditures for benefit payments shown in table 5 differ from those shown in the 1990 Federal Budget. These estimates are based on more recent demographic and economic projections, and they do not reflect the implementation of proposed changes in regulations which were included in the budget. The expenditures for benefit payments shown in this section are based on the assumption that for fiscal years 1991 and later, the prospective payment rates will be increased in accordance with Public Law 100-203, the Omnibus Budget Reconciliation Act of 1987; for fiscal year 1990, it is assumed that the prospective payment rates that have already been determined, and the sequester required by the Gramm-Rudman-Hollings Act, will remain in effect (while Congress continues to consider changes to these rates). For fiscal years through 1989, the prospective payment rates have already been determined.

The actual operations of the hospital insurance program are organized, in general, on a calendar year basis. Earnings subject to taxation and the applicable tax rates are established by calendar year, as are the inpatient hospital deductible and other cost-sharing amounts. The projected operations of the trust fund on a calendar year basis are shown in table 6, according to the same assumptions as used in table 5. A preliminary estimate of the December 1990 lump sum transfer, to be determined in the 1990 quinquennial Military Service Determination, is also included; the provisions prescribing this transfer are described in the "Nature of the Trust Fund" section. The ratios of assets in the trust fund

at the beginning of each calendar year to total disbursements during that year are shown in table 7 for past years and as projected through 1991.

A presentation of the long-range actuarial status of the trust fund does not appear in this report, and the projections presented herein do not reflect the recent enactment of the Medicare Catastrophic Coverage Repeal Act of 1989 and the Omnibus Budget Reconciliation Act of 1989. When the impact of this legislation has been fully evaluated, long-range projections of the actuarial status of the program will be included in the 1990 report.

TABLE 5.--OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967-91  
(in millions)

Fiscal year	Payroll	Income						Total income	Disbursements			Trust fund		
		Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Payments for military service credits	Interest on investments and other income	Benefit payments		Catastrophic	Administrative expenses	Interfund borrowing transfers	Net increase in fund	Fund at end of year	
	1/							Basic	2/	3/	4/	5/		
Historical Data:														
1967	52,689	816	8327		811	846	83,089	82,508		889		82,597		81,343
1968	3,514	44	273		11	61	3,902	3,736		79		3,815		88
1969	4,423	54	749		22	96	5,344	4,654		104		4,758		586
1970	4,785	64	617		11	137	5,614	4,804		149		4,953		661
1971	4,898	66	863		11	180	6,018	5,442		150		5,592		426
1972	5,234	66	503		48	188	6,031	4,108		167		6,276		245
1973	7,663	63	381		48	48	8,352	6,648		184		6,842		1,510
1974	10,502	99	431	94	48	48	11,610	7,806		259		8,065		3,545
1975	11,291	132	481	6	48	609	12,568	10,353		259		10,612		1,956
1976	12,031	138	610	8	48	709	13,544	12,267		512		12,779		566
1977	13,649	0	803	0	11	141	3,216	3,315		89		3,404		112
1978	16,077	214	688	12	143	809	15,374	14,966		301		15,267		167
1979	19,927	191	754	17	141	911	18,543	17,411		451		17,862		681
1980	23,244	244	697	17	141	1,072	21,910	19,891		452		20,343		1,567
1981	30,425	276	659	21	141	1,141	25,415	23,790		497		24,288		1,127
1982	34,393	351	808	25	207	1,629	37,611	34,343		521		38,424		3,603
1983	34,387	358	878	26	3,663	2,629	43,940	38,102		521		34,864		2,747
1984	41,364	351	732	35	250	3,312	45,563	41,476		633		42,108		-7,121
1985	46,490	371	766	38	86	3,182	50,933	47,841		813		48,654	8-12,437	13,719
1986	53,020	364	766	40	-714	3,167	56,442	49,018		667		49,685	1,824	4,103
1987	57,820	368	647	40	94	3,080	62,751	49,967		836		50,803	10,613	17,370
1988	61,901	364	475	42	40	3,148	68,010	52,022		707		52,730	11,849	38,644
Projection:														
Alternative II-A														
1989	67,527	379	515	42	86	6,567	75,116	55,481	81,952	740	864	58,238		16,878
1990	71,669	358	413	43	92	8,001	80,576	60,429	4,841	899	74	66,447		14,133
1991	76,023	339	506	44	-477	9,176	85,611	67,488	5,325	964	79	66,443		18,888
Alternative II-B														
1989	67,527	379	515	42	86	6,567	75,116	55,481	1,952	740	64	58,238		16,878
1990	71,331	358	413	43	92	7,998	80,235	60,425	4,841	897	74	66,447		15,788
1991	75,757	337	507	44	-288	9,212	85,569	67,802	5,331	965	79	66,447		18,992

1/ Fiscal years 1976 and earlier consist of the 12 months ending on June 30 of each year; the three-month interval from July 1, 1976, through September 30, 1976, labeled "T.Q.", is the transition quarter; fiscal years 1977 and later consist of the 12 months ending on September 30 of each year.  
 2/ Other income includes recoveries of amounts reimbursed from the trust fund which are not obligations of the trust fund and a small amount of miscellaneous income.  
 3/ Includes costs of Peer Review Organizations (beginning with the implementation of the Prospective Payment System on October 1, 1983).  
 4/ Includes costs of experiments and demonstration projects.  
 5/ A negative amount is a loan to the HSI trust fund; a positive amount is a repayment of loan principal to the HI trust fund.  
 6/ The 1978 transfer is for benefits and administrative expenses during the five-quarter period covering the transition quarter and fiscal year 1977.  
 7/ The 1978 transfer is for contributions during the five-quarter period covering the transition quarter and fiscal year 1977.  
 8/ Includes \$2 million in reimbursement from general revenues for costs arising from the granting of deemed wage credits to persons of Japanese ancestry who were interned during World War II.  
 9/ Includes the lump sum general revenue adjustment of \$3,656 million, as provided for by section 151 of P.L. 98-21.  
 10/ Includes the preliminary estimate of the lump sum general adjustment of \$570 million, as provided for by section 151 of P.L. 98-21.  
 11/ Includes the preliminary estimate of the lump sum general adjustment of \$381 million, as provided for by section 151 of P.L. 98-21.  
 12/ P.L. 100-540 intended that the receipts of the HI reserve fund would be available as a source of revenue for the HI trust fund. However, such transfers of funds would require a change in the law, and so have not been included here. It is estimated that in fiscal years 1989 to 1991, receipts to the HI reserve fund will be \$527, \$5,700, and \$5,353 million under alternative II-A assumptions, and \$527, \$5,739, and \$5,427 million under alternative II-B assumptions.

NOTE: Totals do not necessarily equal the sum of rounded components.

TABLE 6.--OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-91  
(In millions)

Calendar year	Payroll taxes	Income					Total income	Disbursements				Trust fund			
		Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Payments for military wage credits	Interest on investments and other income 1/		Benefit payments Basic 2/	Catastro- phic coverage	Administrative expenses Basic 3/	Catastro- phic coverage	Total disburse- ments	Inter-fund borrowing transfers 4/	Net increase in fund.	Fund at end of year
Historical Data:															
1966	81,858	816	826		811	832	81,943	8091		\$108	8999		8944	8964	
1967	3,152	44	11		51	3,359	3,358		77		3,430		129	1,073	
1968	4,118	54	1,022		22	5,217	5,207	4,179	99		4,277		1,010	2,083	
1969	4,473	64	617		11	5,279	4,739		118		4,857		422	2,505	
1970	4,881	66	863		11	5,811	5,979	5,124	157		5,281		698	3,302	
1971	4,921	66	583		48	5,732	5,751		150		5,900		-168	3,034	
1972	5,731	63	381		48	6,403	6,318		185		6,503		-99	2,955	
1973	9,864	90	451	82	48	10,821	7,057		232		7,289		3,532	6,467	
1974	10,864	132	471	5	48	12,024	9,009		272		9,372		2,652	9,119	
1975	11,502	138	621	7	48	12,980	11,315		266		11,581		1,399	10,517	
1976	12,727	143	0 5/	9	141	13,766	13,340		339		13,679		88	10,605	
1977	14,114	0 6/	803 8/	12	143 7/	15,856	15,737		283		16,019		-163	10,442	
1978	17,324	214 6/	688	13	141	18,346	17,682		496		18,178		1,035	11,477	
1979	20,768	191	734	16	141	21,850	20,623		450		21,073		1,751	13,228	
1980	23,848	244	697	18	141	24,997	25,064		512		25,577		521	13,749	
1981	32,959	276	659	22	207	33,725	30,342		364		30,726		6,999	18,748	
1982	34,586	351	808	24	207	35,772	35,631		513		36,144	\$-12,437	-10,583	8,164	
1983	37,259	358	878	27	3,456 8/	44,570	39,337		540		39,877		4,663	12,858	
1984	42,288	351	752	33	3,346	46,720	43,257		629		43,887		2,834	15,691	
1985	47,576	371	766	41	-719 9/	51,397	47,580		834		48,414	1,824	4,808	20,499	
1986	54,583	364	566	43	91	54,606	49,756		664		50,422	10,613	10,558	39,937	
1987	58,648	368	447	38	94	60,066	49,696		793		50,289		13,773	53,732	
1988	62,449	364	475	41	80	63,239	52,517		811	84	53,331		15,908	69,640	
Projection:															
Alternative II-A															
1989	68,236	379	515	42	86	7,220	76,478 12/	56,220	83,486	850	70	60,626		15,852	85,492
1990	72,430	358	413	43	-478 10/	8,454	81,420 13/	62,108	4,994	915	75	68,092		13,328	98,820
1991	77,056	339	506	45	93	9,514	87,553 12/	69,098	5,492	980	81	75,651		11,902	110,722
Alternative II-B															
1989	68,236	370	515	42	86	7,220	76,478 12/	56,220	3,486	850	70	60,626		15,852	85,492
1990	72,295	358	413	43	-289 11/	8,450	81,270 13/	62,155	4,994	913	75	68,137		13,133	98,825
1991	76,810	337	507	45	93	9,553	87,345 12/	69,529	5,503	982	81	76,095		11,250	109,875

1/ Other income includes recoveries of amounts reimbursed from the trust fund which are not obligations of the trust fund and a small amount of miscellaneous income.

2/ Includes costs of Peer Review Organizations (beginning with the implementation of the Prospective Payment System on October 1, 1983).

3/ Includes costs of experiments and demonstration projects.

4/ A negative amount is a loan to the OHSI trust fund; a positive amount is a repayment of loan principal to the HI trust fund.

5/ No transfer is made in 1976 because of the change in transfer dates from December to March. The 1977 transfer is for benefits and administrative expenses during the 15-month period beginning July 1976 and ending September 1977.

6/ No transfer is made in 1977 because of the change in transfer dates from August to June. The 1978 transfer is for contributions during the 15-month period beginning July 1976 and ending September 1977.

7/ Includes \$2 million in reimbursement from general revenues for costs arising from the granting of deferred wage credits to persons of Japanese ancestry who were interned during World War II.

8/ The lump sum general revenue transfer, as provided for by section 151 of P.L. 98-21.

9/ Includes the lump sum general revenue adjustment of \$805 million, as provided for by section 151 of P.L. 98-21.

10/ Includes the preliminary estimate of the lump sum general revenue adjustment of \$570 million, as provided for by section 151 of P.L. 98-21.

11/ Includes the preliminary estimate of the lump sum general revenue adjustment of \$381 million, as provided for by section 151 of P.L. 98-21.

12/ P.L. 100-360 intended that the receipts of the HI reserve fund would be available as a source of revenue for the HI trust fund. However, such transfers of funds would require a change in the law, and so have not been included here. It is estimated that in calendar years 1989 to 1991, receipts to the HI reserve fund will be \$563, \$5,853, and \$5,363 million under alternative II-A assumptions, and \$563, \$5,892, and \$5,457 million under alternative II-B assumptions.

NOTE: Totals do not necessarily equal the sums of rounded components.

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**TABLE 7.--RATIO OF ASSETS IN THE FUND AT THE BEGINNING OF  
THE YEAR TO DISBURSEMENTS DURING THE YEAR FOR  
THE HOSPITAL INSURANCE TRUST FUND  
(In percent)**

Calendar year	Ratio
<b>Historical data:</b>	
1967	28%
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
1974	69
1975	79
1976	77
1977	66
1978	57
1979	54
1980	52
1981	45
1982	52
1983	20
1984	29
1985	32
1986	41
1987	79
1988	101
<b>Projection:</b>	
<b>Alternative II-A</b>	
1989	115
1990	126
1991	131
<b>Alternative II-B</b>	
1989	115
1990	125
1991	130

**CONCLUSION**

The balance in the Federal Hospital Insurance Trust Fund at the beginning of 1989 was at the level of 115 percent of estimated outgo for calendar year 1989. This is above the minimum 50 percent level recommended by the Board of Trustees. The tax rates specified in the law are sufficient, along with interest earnings and assets in the fund, to support program expenditures under the intermediate assumptions through at least 1991, the period covered in this report.

Although the uncertainty of the catastrophic coverage legislation has made it impossible to prepare a report portraying the long-range actuarial status of the HI program, it is expected that the actuarial deficit in the HI program would still be significant, and similar in magnitude to the actuarial deficit presented in the 1988 report. The HI trust fund would probably still be exhausted shortly after the turn of the century under alternative II-B assumptions. It is expected that a full long-range assessment of the actuarial status of the fund can be provided in the 1990 report, when the long-range impact of the Medicare Catastrophic Coverage Act of 1988, the Medicare Catastrophic Coverage Repeal Act of 1989, and the Omnibus Budget Reconciliation Act of 1989 can be fully evaluated.